

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Township of Bruce</u>	County Macomb
Audit Date March 31, 2005	Opinion Date June 10, 2005	Date Accountant Report Submitted To State: September 28, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 10 S. Main Street, Suite 200		City Mount Clemens	State MI
ZIP 48043			
Accountant Signature <i>Plante & Moran, PLLC</i>			

**Township of Bruce
Macomb County, Michigan**

**Financial Report
with Supplemental Information
March 31, 2005**

Township of Bruce

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Township of Bruce

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Independent Auditor's Report

To the Board of Trustees
Township of Bruce
Macomb County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Bruce as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Bruce's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Bruce as of March 31, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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To the Board of Trustees
Township of Bruce
Macomb County, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Bruce's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 12, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of April 1, 2004.

Plante & Moran, PLLC

June 10, 2005

Township of Bruce

Management's Discussion and Analysis

As management of the Township of Bruce, Michigan (the "Township"), we offer readers of the Township's financial statements this narrative overview and analysis of the Township's financial activities for the fiscal year ended March 31, 2005. We encourage readers to consider information presented here in conjunction with additional information that is furnished in the Township's financial statements.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

Township of Bruce

Management's Discussion and Analysis (Continued)

The Township as a Whole

The following table shows, in a condensed format, the net assets as of March 31, 2005 (in thousands of dollars). Prior year information is not available because this is the first year of the implementation of GASB Statement No. 34. Comparative data will be presented in future years.

	Governmental Activities	Business-type Activities	Total
Assets			
Current	\$ 3,209	\$ 799	\$ 4,008
Noncurrent	<u>3,487</u>	<u>6,206</u>	<u>9,693</u>
Total assets	6,696	7,005	13,701
Liabilities			
Current liabilities	399	108	507
Long-term liabilities	<u>663</u>	<u>3,341</u>	<u>4,004</u>
Total liabilities	<u>1,062</u>	<u>3,449</u>	<u>4,511</u>
Net Assets			
Invested in capital assets -			
Net of related debt	2,778	2,864	5,642
Restricted	1,340	-	1,340
Unrestricted	<u>1,516</u>	<u>692</u>	<u>2,208</u>
Total net assets	<u><u>\$ 5,634</u></u>	<u><u>\$ 3,556</u></u>	<u><u>\$ 9,190</u></u>

The Township's assets are divided into two categories: business-type activities and governmental-type activities. The combined net assets increased 2 percent from a year ago - increasing from \$9.0 million to \$9.2 million. The governmental-type activities showed an increase of \$160,000 in net assets, which equates to 2.9 percent. This increase resulted from accruing an additional state-sharing revenue payment in the fiscal year due to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, new monies from the State of Michigan for right-of-way maintenance, and additional building fees received. The business-type activities showed an increase of \$28,000 in net assets, which equates to 0.8 percent. This increase was a result of increased sewer revenue from charges for operations to cover expansion of waste water treatment facility.

Township of Bruce

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year (in thousands of dollars). Prior year information is not available because this is the first year of the implementation of GASB Statement No. 34. Comparative data will be presented in future years.

	Governmental Activities	Business-type Activities	Total
Revenue			
Program revenue:			
Charges for services	\$ 630	\$ 232	\$ 862
Operating grants and contributions	-	84	84
Capital grants and contributions	99	-	99
General revenue:			
Property taxes	1,599	-	1,599
State-shared revenue	523	-	523
Unrestricted investment earnings	63	38	101
Miscellaneous	179	-	179
Gain on sale of assets	2	-	2
Total revenue	3,095	354	3,449
Program Expenses			
General government	669	-	669
Public safety	1,923	-	1,923
Public works	289	-	289
Interest on long-term debt	54	-	54
Water and sewer	-	327	327
Total program expenses	2,935	327	3,262
Change in Net Assets	\$ 160	\$ 27	\$ 187

Township of Bruce

Management's Discussion and Analysis (Continued)

Governmental Activities

The Township's total governmental revenues were approximately \$3.1 million. The Township's total governmental expenditures were approximately \$2.9 million. Increases were led by large increases in health care costs and property insurance rates. To offset this, the Township closely monitored its spending in all other areas, including reduction of overtime and capital purchases.

Business-type Activities

The Township's business-type activities consist of the Sewer Fund. We provide sewage treatment through a sewage treatment plant that is owned and operated by the Village of Romeo. The Township leases capacity from the Village of Romeo. The Township increased its sewer rates in the current year. This increase resulted in an operating income, compared to operating losses in the prior year.

The Township's Funds

Our analysis of the Township's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major funds for 2005 include the General Fund, the Fire Fund, the Advanced Life Support Fund, the Romeo Service Contract Fund, and the 2002 Special Assessment Fund.

The General Fund pays for most of the Township's governmental services. The most significant are assessing and building inspection departments, which incurred expenses of approximately \$144,000 and \$121,000, respectively, in 2005. Fire and advanced life support services are supported primarily through special millages that are recorded in the respective funds. The Fire and Advanced Life Support Funds recorded the receipt of approximately \$527,000 and \$687,000, respectively, from these millages in the current year.

Township of Bruce

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the Township amended the budget to take into account events during the year. The most significant change was an increase in public safety and capital outlay expenditures in the Fire Fund. This was a result of purchasing a fire safety vehicle and an increase in hours worked by part-time firefighters due to increased demand. Revenues were higher than anticipated from building permits, primarily renovations and additions.

Economic Factors and Next Year's Budgets and Rates

The Fire Department anticipates raising their millage rates in 2005 to cover the department's increased costs.

Capital Asset and Debt Administration

In December 2004, the Township board approved issuing \$3,375,000 of general obligation capital improvement bonds for the expansion and renovation of the Village of Romeo waste water treatment plant. The Township does not have ownership in this facility; however, the Township utilizes this facility to service the Township's residents. This expansion was necessary to provide sewer support to the industrial district.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office.

Township of Bruce

Statement of Net Assets March 31, 2005

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Assets			
Cash and investments (Note 2)	\$ 2,681,633	\$ 729,452	\$ 3,411,085
Receivables:			
Taxes	82,862	-	82,862
Customers	-	69,942	69,942
Special assessments	265,464	-	265,464
Contracts and other	1,071	-	1,071
Due from other governmental units	103,254	-	103,254
Prepaid costs and other assets	74,395	-	74,395
Restricted assets (Note 6)	-	3,286,246	3,286,246
Capital assets (Note 4):			
Nondepreciable capital assets	746,770	82,502	829,272
Depreciable capital assets	2,740,014	2,836,753	5,576,767
Total assets	6,695,463	7,004,895	13,700,358
Liabilities			
Accounts payable	32,310	107,386	139,696
Accrued and other liabilities	95,392	355	95,747
Deferred revenue (Note 3)	102,988	-	102,988
Noncurrent liabilities (Note 7):			
Due within one year	168,611	-	168,611
Due in more than one year	662,290	3,341,250	4,003,540
Total liabilities	1,061,591	3,448,991	4,510,582
Net Assets			
Invested in capital assets - Net of related debt	2,777,633	2,864,251	5,641,884
Restricted:			
Debt service	928	-	928
Capital projects	152,891	-	152,891
Public safety	1,186,510	-	1,186,510
Unrestricted	1,515,910	691,653	2,207,563
Total net assets	\$ 5,633,872	\$ 3,555,904	\$ 9,189,776

Township of Bruce

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and	and
			Contributions	Contributions
Functions/Programs				
Primary government - Governmental activities:				
General government	\$ 669,099	\$ -	\$ -	\$ -
Public safety	1,923,003	560,275	-	99,000
Public works	289,199	70,000	-	-
Interest on long-term debt	53,752	-	-	-
Total governmental activities	2,935,053	630,275	-	99,000
Business-type activities - Sewer	326,504	231,948	84,480	-
Total primary government	<u>\$ 3,261,557</u>	<u>\$ 862,223</u>	<u>\$ 84,480</u>	<u>\$ 99,000</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Miscellaneous				
Gain on sale of assets				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended March 31, 2005

Net (Expense) Revenue and Changes in Net Assets

<u>Primary Government</u>		
<u>Governmental</u>	<u>Business-type</u>	
<u>Activities</u>	<u>Activities</u>	<u>Total</u>
\$ (669,099)	\$ -	\$ (669,099)
(1,263,728)	-	(1,263,728)
(219,199)	-	(219,199)
<u>(53,752)</u>	<u>-</u>	<u>(53,752)</u>
(2,205,778)	-	(2,205,778)
<u>-</u>	<u>(10,076)</u>	<u>(10,076)</u>
(2,205,778)	(10,076)	(2,215,854)
1,598,657	-	1,598,657
523,253	-	523,253
62,808	38,259	101,067
179,113	-	179,113
<u>2,252</u>	<u>-</u>	<u>2,252</u>
<u>2,366,083</u>	<u>38,259</u>	<u>2,404,342</u>
160,305	28,183	188,488
<u>5,473,567</u>	<u>3,527,721</u>	<u>9,001,288</u>
<u>\$ 5,633,872</u>	<u>\$ 3,555,904</u>	<u>\$ 9,189,776</u>

Township of Bruce

Governmental Funds Balance Sheet March 31, 2005

	Major Special Revenue Funds				Major Capital Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
	General	Fire	Advanced Life Support	Romeo Service Contract	2002 Special Assessment		
Assets							
Cash and investments (Note 2)	\$ 928,074	\$ 554,605	\$ 566,627	\$ 210,515	\$ 152,953	\$ 268,859	\$ 2,681,633
Receivables:							
Taxes	19,687	27,354	35,821	-	-	-	82,862
Special assessments	51,913	-	24,705	18,906	169,940	-	265,464
Contracts and other	1,071	-	-	-	-	-	1,071
Due from other funds (Note 5)	2,896	3	222	67	-	1,007	4,195
Due from other governmental units	103,254	-	-	-	-	-	103,254
Prepaid costs	20,082	17,635	25,467	11,211	-	-	74,395
Total assets	<u>\$ 1,126,977</u>	<u>\$ 599,597</u>	<u>\$ 652,842</u>	<u>\$ 240,699</u>	<u>\$ 322,893</u>	<u>\$ 269,866</u>	<u>\$ 3,212,874</u>
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 25,917	\$ 975	\$ 3,292	\$ 2,063	\$ 63	\$ -	\$ 32,310
Accrued and other liabilities	34,334	19,859	20,560	16,720	-	-	91,473
Due to other funds (Note 5)	1,232	-	67	500	-	2,396	4,195
Deferred revenue (Note 3)	83,201	-	21,176	102,448	169,939	83	376,847
Total liabilities	144,684	20,834	45,095	121,731	170,002	2,479	504,825
Fund Balances							
Reserved for prepaid expenditures	20,082	17,635	25,467	11,211	-	-	74,395
Unreserved, reported in:							
General Fund - Designated for postretirement health care costs	100,000	-	-	-	-	-	100,000
Special Revenue Funds:							
Designated for cemetery perpetual care	-	-	-	-	-	15,216	15,216
Designated for postretirement health care costs	-	50,000	50,000	-	-	-	100,000
Undesignated	-	511,128	532,280	107,757	-	251,243	1,402,408
Debt Service Funds - Designated for debt service	-	-	-	-	-	928	928
Capital Projects Funds - Designated for capital improvements	-	-	-	-	152,891	-	152,891
Unreserved - Undesignated	862,211	-	-	-	-	-	862,211
Total fund balances	<u>982,293</u>	<u>578,763</u>	<u>607,747</u>	<u>118,968</u>	<u>152,891</u>	<u>267,387</u>	<u>2,708,049</u>
Total liabilities and fund balances	<u>\$ 1,126,977</u>	<u>\$ 599,597</u>	<u>\$ 652,842</u>	<u>\$ 240,699</u>	<u>\$ 322,893</u>	<u>\$ 269,866</u>	<u>\$ 3,212,874</u>

Township of Bruce

Governmental Funds Reconciliation of Fund Balances to the Statement of Net Assets Year Ended March 31, 2005

Total Fund Balances for Governmental Funds		\$	2,708,049
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and are not reported in the funds:			
Cost of capitalized assets	\$	6,372,078	
Accumulated depreciation		<u>(2,885,294)</u>	3,486,784
Revenue related to receivables is reported in the statement of net assets at the time it is earned without regard to timeliness of remittance			
			273,859
Long-term liabilities are not due and payable in the current period and are not recorded in the funds			
			(830,901)
Accrued interest payable is not reported in the funds			
			<u>(3,919)</u>
Total Net Assets of Governmental Activities		\$	<u>5,633,872</u>

Township of Bruce

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended March 31, 2005

	General	Fire	Advanced Life Support	Romeo Service Contract	2002 Special Assessment	Nonmajor Governmental Funds	Total Governmental Funds
Revenue							
Property taxes	\$ 382,233	\$ 526,984	\$ 687,171	\$ -	\$ -	\$ -	\$ 1,596,388
Licenses and permits	86,662	-	-	-	-	-	86,662
Federal grants	-	99,000	-	-	-	-	99,000
State-shared revenue	488,435	-	-	-	-	-	488,435
Charges for services	-	67,654	70,141	422,480	-	-	560,275
Special assessments	3,530	-	3,529	-	65,036	45,482	117,577
Interest earned	29,254	6,276	4,935	4,136	13,509	4,859	62,969
Other	92,629	1,431	371	-	-	2,800	97,231
Total revenue	1,082,743	701,345	766,147	426,616	78,545	53,141	3,108,537
Expenditures							
Current:							
General government	540,139	-	-	-	-	-	540,139
Public safety	-	507,248	691,694	387,420	-	-	1,586,362
Public services	191,403	-	-	-	-	4,510	195,913
Employee benefits and insurance	254,472	-	-	-	-	-	254,472
Community and economic development	63,074	-	-	-	-	-	63,074
Capital outlay	7,243	72,398	71,425	2,116	-	82,950	236,132
Debt service	-	91,654	24,079	-	72,254	-	187,987
Total expenditures	1,056,331	671,300	787,198	389,536	72,254	87,460	3,064,079
Excess of Revenue Over (Under) Expenditures	26,412	30,045	(21,051)	37,080	6,291	(34,319)	44,458
Other Financing Sources (Uses)							
Transfers in	66,161	-	29,558	25,436	-	122,684	243,839
Transfers out	(72,684)	-	-	(50,000)	-	(121,155)	(243,839)
Proceeds from sale of capital assets	-	-	2,252	-	-	-	2,252
Total other financing sources (uses)	(6,523)	-	31,810	(24,564)	-	1,529	2,252
Net Change in Fund Balances	19,889	30,045	10,759	12,516	6,291	(32,790)	46,710
Fund Balances - Beginning of year	962,404	548,718	596,988	106,452	146,600	300,177	2,661,339
Fund Balances - End of year	\$ 982,293	\$ 578,763	\$ 607,747	\$ 118,968	\$ 152,891	\$ 267,387	\$ 2,708,049

Township of Bruce

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended March 31, 2005

Net Change in Fund Balances - Total Governmental Funds	\$	46,710
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	245,425
Depreciation is recorded as an expense in the statement of activities but not in the governmental funds	(238,165)
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(49,578)
Revenue is reported in the statement of activities at the time it is earned, without regard to timeliness of collection	34,818
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	135,154
Accrued interest is recorded on debt when incurred in the statement of activities	(919)
Change in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	(13,140)

Change in Net Assets of Governmental Activities	\$	<u>160,305</u>
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Township of Bruce

Proprietary Fund - Enterprise - Sewer Fund Statement of Net Assets March 31, 2005

Assets

Current assets:

Cash and cash equivalents (Note 2)	\$ 729,452
Receivables - Customers	<u>69,942</u>

Total current assets 799,394

Noncurrent assets:

Restricted assets (Note 6) 3,286,246

Capital assets (Note 4):

Nondepreciable capital assets	82,502
Depreciable capital assets	<u>2,836,753</u>

Total noncurrent assets 6,205,501

Total assets 7,004,895

Liabilities

Current liabilities:

Accounts payable	107,386
Accrued and other liabilities	<u>355</u>

Total current liabilities 107,741

Noncurrent liabilities - Long-term debt (Note 7) 3,341,250

Total liabilities 3,448,991

Net Assets

Investment in capital assets - Net of related debt	2,864,251
Unrestricted	<u>691,653</u>

Total net assets \$ 3,555,904

Township of Bruce

Proprietary Fund - Enterprise - Sewer Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended March 31, 2005

Operating Revenue - Charges for services	\$ 197,344
Operating Expenses	
Cost of sewage disposal	60,000
Operation and maintenance	106,818
General and administration	16,496
Depreciation and amortization	<u>69,324</u>
Total operating expenses	<u>252,638</u>
Operating Loss	(55,294)
Nonoperating Revenue (Expense)	
Bond issuance costs	(18,862)
Interest income	38,259
Interest expense	<u>(55,004)</u>
Total nonoperating expense	<u>(35,607)</u>
Loss - Before contributions	(90,901)
Capital Contributions	<u>119,084</u>
Change in Net Assets	28,183
Net Assets - Beginning of year	<u>3,527,721</u>
Net Assets - End of year	<u><u>\$ 3,555,904</u></u>

Township of Bruce

Proprietary Fund - Enterprise - Sewer Fund Statement of Cash Flows Year Ended March 31, 2005

Cash Flows from Operating Activities	
Receipts from customers	\$ 154,332
Payments to suppliers	(164,660)
Other receipts	295
Net cash used in operating activities	(10,033)
Cash Flows from Capital and Related Financing Activities	
Proceeds from issuance of long-term debt	3,341,250
Bond issuance costs	(18,522)
Capital contributions from connection fees	119,084
Purchase of capital assets	(82,502)
Principal and interest paid on debt	(55,004)
Net cash provided by capital and related financing activities	3,304,306
Cash Flows from Investing Activities - Interest received on investments	38,259
Net Increase in Cash and Cash Equivalents	3,332,532
Cash and Cash Equivalents - Beginning of year	683,166
Cash and Cash Equivalents - End of year	<u><u>\$ 4,015,698</u></u>
Balance sheet classification of cash and cash equivalents:	
Cash and cash equivalents	\$ 729,452
Restricted assets	3,286,246
Total	<u><u>\$ 4,015,698</u></u>
Reconciliation of Operating Loss to Net Cash from Operating Activities	
Operating loss	\$ (55,294)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	69,324
Changes in assets and liabilities:	
Receivables	(43,165)
Other assets	448
Accounts payable	18,754
Accrued and other liabilities	(100)
Net cash used in operating activities	<u><u>\$ (10,033)</u></u>

There were no noncash capital, financing, or investing activities during the year.

Township of Bruce

Fiduciary Funds **Statement of Assets and Liabilities - Agency Funds** **March 31, 2005**

Assets

Cash and cash equivalents	\$ 242,778
Receivables - Contracts and other	370
Due from other governmental units	<u>55,352</u>

Total assets	<u><u>\$ 298,500</u></u>
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Liabilities

Due to other governmental units	\$ 93,607
Accrued and other liabilities	107,520
Deposits	<u>97,373</u>

Total liabilities	<u><u>\$ 298,500</u></u>
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Township of Bruce

Notes to Financial Statements March 31, 2005

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Township of Bruce (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township of Bruce:

Reporting Entity

The Township is governed by an elected, five-member board of trustees. The accompanying financial statements present the Township and its component units, entities for which the Township is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are a part of the Township's operations.

Blended Component Units - The Building Authority is governed by a board that is appointed by the Township Board. Although it is legally separate from the Township, it is reported as if it were part of the primary government because its sole purpose is to finance and construct the Township's public buildings.

The Township's Economic Development Corporation and Hospital Finance Authority have no financial activity and are, therefore, excluded from the Township's basic financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Township of Bruce

Notes to Financial Statements March 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

General Fund - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Fire Fund - The Fire Fund accounts for fire safety and protection services/activities within the Township. Funding is provided primarily through a local property tax levy.

Note 1 - Summary of Significant Accounting Policies (Continued)

Advanced Life Support Fund - The Advanced Life Support Fund accounts for emergency medical response services/activities within the Township. Funding is provided primarily through a local property tax levy and a user charge for ambulance services.

Romeo Service Contract Fund - The Romeo Service Contract Fund accounts for fire safety and protection services/activities within the Village of Romeo. Funding is provided primarily through user charges charged to the Village of Romeo.

2002 Special Assessment Fund - The 2002 Special Assessment Fund accounts for the construction activities related to a Township paving project and is funded by the residents receiving the benefit of the paving project.

The Township reports the following major Enterprise Fund:

Sewer Fund - The Sewer Fund accounts for the activities of the sewage and storm water collection system. Funding is primarily through user charges.

Additionally, the Township reports the following fund type:

Agency Funds - The Agency Funds account for assets held by the Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

Note 1 - Summary of Significant Accounting Policies (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Township's 2004 tax is levied and collectible on December 1, 2004 and is recognized as revenue in the year ended March 31, 2005, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2004 taxable valuation of the Township totaled \$437.6 million, on which taxes levied consisted of 0.8033 mills for operating purposes. This resulted in \$351,522 for operating, which is recognized in the General Fund as tax revenue. The 2004 taxable valuation of the Township, excluding property within the Village of Romeo, totaled \$268.7 million, on which taxes levied consisted of 1.94 mills for fire services and 2.55 mills for advanced life support services. This resulted in \$521,296 for fire services and \$685,208 for advanced life support services. These amounts are recognized in the respective Special Revenue Fund as tax revenue.

Note I - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, buildings, equipment, furniture and fixtures, vehicles, and sewer systems, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Sewer system	30 to 60 years
Buildings	40 years
Fire vehicles and equipment	5-12 years
Machinery and equipment	5-7 years
Election equipment	5 years

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences - It is the Township's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Township of Bruce

Notes to Financial Statements March 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

The Township tracks the results of building department operations in the General Fund. In accordance with Michigan Public Act 245 of 1999 (the "Act"), the Township is required to maintain an accounting system that separately accumulates revenue and expenditures related to the building department function. As required under provisions of the Act, the Township adopted this accounting treatment effective January 1, 2000. A summary of the activity since January 1, 2000 is as follows:

Accumulated expenditures over revenue - April 1, 2004	\$ (241,082)
2004-2005 building department activity:	
Current year revenue	86,662
Current year expenditures	<u>(129,995)</u>
Excess of expenditures over revenue	<u>(43,333)</u>
Accumulated expenditures over revenue - March 31, 2005	<u>\$ (284,415)</u>

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Township has designated nine banks for the deposit of its funds.

The Township's deposits and investment policies are in accordance with statutory authority.

Township of Bruce

Notes to Financial Statements March 31, 2005

Note 2 - Deposits and Investments (Continued)

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government
Cash and cash equivalents	\$ 2,681,633	\$ 729,452	\$ 242,778	\$ 3,653,863
Restricted assets	-	3,286,246	-	3,286,246
Total	<u>\$ 2,681,633</u>	<u>\$ 4,015,698</u>	<u>\$ 242,778</u>	<u>\$ 6,940,109</u>

The breakdown between deposits and investments for the Township is as follows:

	Primary Government
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 3,716,983
Investments in securities, mutual funds, and similar vehicles	3,222,957
Petty cash or cash on hand	<u>169</u>
Total	<u>\$ 6,940,109</u>

Deposits

The Township's deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at approximately \$3,785,000, of which approximately \$660,000 is covered by federal depository insurance. The remainder was uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Township of Bruce

Notes to Financial Statements March 31, 2005

Note 2 - Deposits and Investments (Continued)

Investments

The Township is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles.

Investment earnings of the Agency and Improvement Revolving Funds are allocated to the General Fund pursuant to a resolution by the board of trustees.

Investments are normally categorized to give an indication of the level of risk assumed by the Township. The bank investment pool, interlocal agreement investment pool, and mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form.

The mutual funds are registered with the SEC. The bank investment pool is regulated by the Michigan Banking Act. Investments under the interlocal agreement (MBIA-CLASS) are regulated by the Urban Cooperation Act. The fair value of the position in the bank investment pool and interlocal agreement pool is the same as the value of the pool shares. The Township believes that the investments in these funds comply with the investment authority noted above.

Note 3 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Romeo service contract	\$ -	\$ 102,988
Special assessments	239,041	-
State-shared revenue	34,818	-
Total	<u>\$ 273,859</u>	<u>\$ 102,988</u>

Township of Bruce

Notes to Financial Statements March 31, 2005

Note 4 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

	Balance March 31, 2004	Additions	Disposals and Adjustments	Balance March 31, 2005
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 746,770	\$ -	\$ -	\$ 746,770
Capital assets being depreciated:				
Buildings	3,320,902	-	-	3,320,902
Fire vehicles and equipment	1,953,853	245,425	65,000	2,134,278
Machinery and equipment	137,328	-	-	137,328
Election equipment	32,800	-	-	32,800
Subtotal	5,444,883	245,425	65,000	5,625,308
Accumulated depreciation:				
Buildings	1,407,320	90,571	-	1,497,891
Fire vehicles and equipment	1,217,650	127,802	65,000	1,280,452
Machinery and equipment	54,359	19,792	-	74,151
Election equipment	32,800	-	-	32,800
Subtotal	2,712,129	238,165	65,000	2,885,294
Net capital assets being depreciated	2,732,754	7,260	-	2,740,014
Net capital assets	\$ 3,479,524	\$ 7,260	\$ -	\$ 3,486,784
Business-type Activities				
Capital assets not being depreciated -				
Construction in progress	\$ -	\$ 82,502	\$ -	\$ 82,502
Capital assets being depreciated:				
Sewer system	3,959,568	-	-	3,959,568
Accumulated depreciation	1,053,491	69,324	-	1,122,815
Net capital assets being depreciated	2,906,077	(69,324)	-	2,836,753
Net capital assets	\$ 2,906,077	\$ 13,178	\$ -	\$ 2,919,255

Township of Bruce

Notes to Financial Statements March 31, 2005

Note 4 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 110,363
Fire services	<u>127,802</u>
Total governmental activities	<u>\$ 238,165</u>
Business-type activities - Sewer	<u>\$ 69,324</u>

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Romeo Service Contract Fund	\$ 500
General Fund	Nonmajor governmental funds	2,396
Fire Fund	General Fund	3
Advanced Life Support Fund	General Fund	222
Romeo Service Contract Fund	Advanced Life Support Fund	67
Nonmajor governmental funds	General Fund	<u>1,007</u>
Total		<u>\$ 4,195</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Township of Bruce

Notes to Financial Statements March 31, 2005

Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>	
General Fund	Other governmental funds	\$ 72,684	(1)
Romeo Service Contract Fund	Other governmental funds	50,000	(1)
Nonmajor governmental funds	General Fund	66,161	(2)
Nonmajor governmental funds	Romeo Service Contract Fund	25,436	(2)
Nonmajor governmental funds	Advanced Life Support Fund	<u>29,558</u>	(2)
Total		<u>\$ 243,839</u>	

(1) Transfer of unrestricted resources to finance capital projects related to a special assessment.

(2) Transfer as a result of completion of Henry Ross Special Assessment capital project and San Marino Special Assessment capital project activity which was funded with transfers from the General Fund.

Note 6 - Restricted Assets

The business-type activities' restricted cash and cash equivalents are comprised of unspent bond proceeds in the sewer fund that are required to be set aside for construction.

Note 7 - Long-term Debt

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Township. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Township is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received.

Township of Bruce

Notes to Financial Statements March 31, 2005

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities						
Installment purchase agreements:						
2002 Huntington National Bank Fire Truck Loan						
Amount of issue: \$300,000		\$62,361 -				
Maturing through: February 11, 2007	4.00%	\$64,862	\$ 187,138	\$ (59,885)	\$ 127,253	\$ 62,361
Fire Station Loan						
Amount of issue: \$400,000		\$24,481 -				
Maturing through: October 1, 2012	3.86%	\$46,322	346,086	(35,269)	310,817	36,645
Special assessment bonds - 2002 Limited tax bonds						
Amount of issue: \$375,000	3.04% -	\$35,000 -				
Maturing through: February 1, 2012	6.40%	\$40,000	315,000	(40,000)	275,000	40,000
Other long-term obligations - Compensated absences			104,691	13,140	117,831	29,605
Total governmental activities			952,915	(122,014)	830,901	168,611
Business-type Activities						
General obligation bonds - 2004 Improvement Bonds						
Amount of issue: \$3,375,000	4.15% -	\$25,000 -				
Maturing through: October 1, 2033	5.30%	\$200,000	-	3,375,000	3,375,000	-
Less unamortized discount on issuance			-	(33,750)	(33,750)	-
Total business-type activities			-	3,341,250	3,341,250	-
Total governmental and business-type activities			\$ 952,915	\$ 3,219,236	\$ 4,172,151	\$ 168,611

Township of Bruce

Notes to Financial Statements March 31, 2005

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 139,006	\$ 25,736	\$ 164,742	\$ -	\$ 165,013	\$ 165,013
2007	142,997	20,338	163,335	-	165,013	165,013
2008	79,601	15,530	95,131	25,000	164,350	189,350
2009	79,601	14,170	93,771	50,000	162,363	212,363
2010	82,843	9,568	92,411	50,000	159,713	209,713
2011-2015	189,022	7,373	196,395	375,000	747,550	1,122,550
2016-2020	-	-	-	550,000	636,981	1,186,981
2021-2025	-	-	-	700,000	494,594	1,194,594
2026-2030	-	-	-	850,000	304,363	1,154,363
2031-2033	-	-	-	775,000	80,169	855,169
Total	<u>\$ 713,070</u>	<u>\$ 92,715</u>	<u>\$ 805,785</u>	<u>\$ 3,375,000</u>	<u>\$ 3,080,109</u>	<u>\$ 6,455,109</u>

Note 8 - Joint Ventures

The Township is a member of four joint ventures:

- Romeo-Washington-Bruce Parks and Recreation (R.W.B.P.R.)
- Senior Transportation through Advanced Reservation (S.T.A.R.)
- Romeo-Washington-Bruce Tri-Community Cable Communications Commission
- Romeo District Library

The joint ventures' governing boards are comprised of appointed members from each participating municipality. The Township appoints three members each to R.W.B.P.R.'s and S.T.A.R.'s governing boards, two members to the Tri-Community Cable Communications Commission governing board, and one member to the Romeo District Library board. The boards then approve the annual budgets.

The principal revenue sources of R.W.B.P.R., S.T.A.R., and the Romeo District Library are user fees and a voted property tax. The principal revenue source for the Tri-Community Cable Communications Commission is appropriations from the three communities that are equal to the fees paid to the communities by the cable operator.

Note 8 - Joint Ventures (Continued)

The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. There is no definable equity interest in any of these joint ventures. Complete financial statements for the joint ventures can be obtained from the administrative offices at 223 East Gates Street, Romeo, Michigan.

Note 9 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for all such risks. Settled claims relating to insurance plans have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 10 - Defined Contribution Retirement Plan

The Township provides pension benefits to all of its full-time employees and specifically identified part-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the Township Board, the Township contributes 16 percent of full-time employees' and 10 percent of part-time employees' base earnings. In accordance with these requirements, the Township contributed \$161,933 and the employees contributed \$65,575 during the current year.

Note 11 - Contingency

The Township is a defendant in a lawsuit. The potential outcome is not determinable at the present time. It is the opinion of management that any liabilities resulting from this lawsuit will not have a materially adverse effect on combined operations or combined financial position.

Note 12 - Accounting and Reporting Changes

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Township of Bruce has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Township's activities
- A change in the fund financial statements to focus on the major funds
- Capital assets in the governmental activities column of the statement of net assets includes assets totaling approximately \$3,500,000 that would have previously been reported in the General Fixed Assets Account Group.
- The governmental activities column includes bonds and other long-term obligations totaling approximately \$830,000 previously reported in the General Long-term Debt Account Group.

Upcoming Reporting Change - The Government Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending March 31, 2010.

Required Supplemental Information

Township of Bruce

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2005

	Original Budget	Amended Budget	Actual
Revenues			
Property taxes	\$ 395,000	\$ 395,000	\$ 382,233
Licenses and permits	62,000	62,000	86,662
State sources	443,742	443,742	488,435
Special assessments	-	-	3,530
Interest income	15,000	15,000	29,254
Other	89,720	89,720	92,629
Transfers from other funds	-	-	66,161
Total revenues	1,005,462	1,005,462	1,148,904
Expenditures			
General government:			
Township Board	28,800	34,800	37,425
Township Supervisor	41,600	41,600	41,600
Elections	20,000	22,000	22,812
Assessing	144,345	144,345	136,690
Legal Fees	17,500	18,500	21,025
Township Clerk	41,600	41,600	41,600
General office	89,499	94,499	102,301
Accounting and audit	69,635	81,935	81,962
Board of Review	1,000	1,000	600
Tax roll preparation	13,503	13,553	12,524
Township Treasurer	41,600	41,600	41,600
Public services:			
Zoning Board of Appeals	1,125	1,125	991
Cemeteries	8,700	8,700	7,500
Township hall	22,400	22,300	22,321
Inspections	121,261	121,261	129,995
Street lighting	6,850	6,850	7,436
Engineering	1,700	6,700	8,084
Planning	13,430	13,430	10,076
Ordinance enforcement	5,000	5,000	5,000
Employee benefits and insurance:			
Insurance and other	134,900	135,900	149,591
Pension plan	65,200	65,200	61,703
Employer payroll taxes	40,900	40,900	43,178
Capital outlay and other:			
Road chloride and paving	30,000	30,000	18,675
Capital outlay	2,884	7,434	7,243
Cable TV studio	42,030	44,399	44,399
Transfers to other funds	-	189,800	72,684
Total expenditures	1,005,462	1,234,431	1,129,015
Net Change in Fund Balance	-	(228,969)	19,889
Fund Balance - Beginning of year	962,404	962,404	962,404
Fund Balance - End of year	\$ 962,404	\$ 733,435	\$ 982,293

Township of Bruce

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Fire Fund Year Ended March 31, 2005

	Original Budget	Amended Budget	Actual
Revenues			
Current taxes	\$ 485,282	\$ 485,282	\$ 526,984
Charges for services	35,960	35,960	67,654
Interest earned	6,000	6,000	6,276
Federal sources	-	99,000	99,000
Other local revenue	-	-	1,431
Total revenues	527,242	626,242	701,345
Expenditures			
Public safety	435,350	549,025	507,248
Capital outlay	25,000	76,000	72,398
Debt service	66,892	66,892	91,654
Total expenditures	527,242	691,917	671,300
Net Change in Fund Balance	-	(65,675)	30,045
Fund Balance - Beginning of year	548,718	548,718	548,718
Fund Balance - End of year	<u>\$ 548,718</u>	<u>\$ 483,043</u>	<u>\$ 578,763</u>

Township of Bruce

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Advanced Life Support Fund Year Ended March 31, 2005

	Original Budget	Amended Budget	Actual
Revenues			
Current taxes	\$ 637,870	\$ 637,870	\$ 687,171
Charges for services	35,000	35,000	70,141
Special assessments	-	-	3,529
Interest earned	4,706	4,706	4,935
Sale of assets	-	-	2,252
Other local revenue	-	-	371
Transfers from other funds	69,700	-	29,558
Total revenues	747,276	677,576	797,957
Expenditures			
Public safety	674,000	706,775	691,694
Capital outlay	25,000	76,000	71,425
Debt service	48,276	48,276	24,079
Total expenditures	747,276	831,051	787,198
Net Change in Fund Balance	-	(153,475)	10,759
Fund Balance - Beginning of year	596,988	596,988	596,988
Fund Balance - End of year	<u>\$ 596,988</u>	<u>\$ 443,513</u>	<u>\$ 607,747</u>

Township of Bruce

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Romeo Service Contract Fund Year Ended March 31, 2005

	Original Budget	Amended Budget	Actual
Revenues			
Charges for services	\$ 414,000	\$ 414,000	\$ 422,480
Interest earned	3,000	3,000	4,136
Transfers from other funds	-	-	25,436
Total revenues	417,000	417,000	452,052
Expenditures			
Public safety	381,300	387,550	387,420
Capital outlay	-	2,500	2,116
Operating transfers out	-	50,000	50,000
Total expenditures	381,300	440,050	439,536
Net Change in Fund Balance	35,700	(23,050)	12,516
Fund Balance - Beginning of year	106,452	106,452	106,452
Fund Balance - End of year	<u>\$ 142,152</u>	<u>\$ 83,402</u>	<u>\$ 118,968</u>

Township of Bruce

Note to Required Supplemental Information March 31, 2005

Note - Budgetary Information

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds except that operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)". All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the fund level and is the classification detail at which expenditures may not legally exceed appropriations.

Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Township of Bruce incurred expenditures that were in excess of the amounts budgeted, as follows:

	Amended Budget	Actual
General Fund:		
Township Board	\$ 34,800	\$ 37,425
Elections	22,000	22,812
General office	94,499	102,301
Accounting and audit	81,935	81,962
Township hall	22,300	22,321
Inspections	121,261	129,995
Street lighting	6,850	7,436
Engineering	6,700	8,084
Insurance and other	135,900	149,591
Employer payroll taxes	40,900	43,178
Fire Fund - Debt service	66,892	91,654

Other Supplemental Information

Township of Bruce

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds March 31, 2005

	Special Revenue Funds		Debt Service Fund	Nonmajor Capital Projects Fund		Total Nonmajor Governmental Funds
	Improvement Revolving	McCafferty Cemetery	Debt Service	Henry Ross Special Assessment	San Marino Special Assessment	
Assets						
Cash and investments	\$ 253,639	\$ 15,216	\$ 4	\$ -	\$ -	\$ 268,859
Due from other funds	-	-	1,007	-	-	1,007
Total assets	<u>\$ 253,639</u>	<u>\$ 15,216</u>	<u>\$ 1,011</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 269,866</u>
Liabilities and Fund Balances						
Liabilities						
Due to other funds	\$ 2,396	\$ -	\$ -	\$ -	\$ -	\$ 2,396
Deferred revenue	-	-	83	-	-	83
Total liabilities	2,396	-	83	-	-	2,479
Fund Balances - Unreserved						
McCafferty Cemetery - Designated for cemetery perpetual care	-	15,216	-	-	-	15,216
Debt Service Fund - Designated for debt service	-	-	928	-	-	928
General Fund - Undesignated	251,243	-	-	-	-	251,243
Total fund balances	<u>251,243</u>	<u>15,216</u>	<u>928</u>	<u>-</u>	<u>-</u>	<u>267,387</u>
Total liabilities and fund balances	<u>\$ 253,639</u>	<u>\$ 15,216</u>	<u>\$ 1,011</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 269,866</u>

Township of Bruce

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended March 31, 2005

	Special Revenue Funds		Debt Service Fund	Nonmajor Capital Projects Funds		Total Nonmajor Governmental Funds
	Improvement Revolving	McCafferty Cemetery	Debt Service	Henry Ross Special Assessment	San Marino Special Assessment	
Revenue						
Interest earned	\$ 161	\$ 62	\$ 275	\$ 3,944	\$ 417	\$ 4,859
Special assessments	-	-	653	22,941	21,888	45,482
Other	-	2,800	-	-	-	2,800
Total revenue	161	2,862	928	26,885	22,305	53,141
Expenditures						
Current - Public services	-	4,510	-	-	-	4,510
Capital outlay	-	-	-	-	82,950	82,950
Total expenditures	-	4,510	-	-	82,950	87,460
Excess of Revenue Over (Under) Expenditures	161	(1,648)	928	26,885	(60,645)	(34,319)
Other Financing Sources (Uses)						
Transfers in	-	-	-	-	122,684	122,684
Transfers out	-	-	-	(59,116)	(62,039)	(121,155)
Total other financing sources (uses)	-	-	-	(59,116)	60,645	1,529
Net Change in Fund Balances	161	(1,648)	928	(32,231)	-	(32,790)
Fund Balances - Beginning of year	251,082	16,864	-	32,231	-	300,177
Fund Balances - End of year	\$ 251,243	\$ 15,216	\$ 928	\$ -	\$ -	\$ 267,387

Township of Bruce

Other Supplemental Information Combining Statement of Assets and Liabilities Fiduciary Funds March 31, 2005

	Agency Funds		
	Current Tax	Trust and Agency	Totals
Assets			
Cash and investments	\$ 1	\$ 242,777	\$ 242,778
Receivables - Contracts and other	-	370	370
Due from other governmental units	-	55,352	55,352
Total assets	<u>\$ 1</u>	<u>\$ 298,499</u>	<u>\$ 298,500</u>
Liabilities			
Due to other governmental units	\$ 1	\$ 93,606	\$ 93,607
Accrued and other liabilities	-	107,520	107,520
Deposits	-	97,373	97,373
Total liabilities	<u>\$ 1</u>	<u>\$ 298,499</u>	<u>\$ 298,500</u>



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June 10, 2005

Board of Trustees
Township of Bruce
223 East Gates
Romeo, MI 48065

Dear Members of the Board:

We recently completed our audit of the basic financial statements of Township of Bruce for the year ended March 31, 2005. In addition to our audit report, we offer the following comments and recommendations for your consideration:

New Financial Statement Format (GASB 34)

Over the last several years, we have discussed the pending implementation of Governmental Accounting Standards Board (GASB) 34 with the Township. This new accounting standard was implemented this year. It significantly impacts the format of the Township's financial statements. GASB 34 has dramatically changed the look and feel of the financial statements. While the financial statements retain an element of familiarity with the continued reporting of fund-based information, there are several additions and changes that provide information never before presented in the Township's annual financial report. The expected benefits of the new model include improved comparability of financial statements between communities, and a better matching of the current year's revenue sources to the full cost of services provided during that year. Much of the information that was previously provided in your financial statements has been retained in the new financial statement format, however, in a different format.

- Management Discussion and Analysis (MD&A): The MD&A provides a high-level overview of the Township's financial position and results of operations, with a focus on the government-wide financial statements.
- Government-Wide Financial Statements: These additional statements adjust the normal fund-based statements into a combined, full-accrual format (similar to for-profit commercial enterprises). This allows a financial statement reader to see the Township from a longer term, economic perspective (i.e., Are today's taxpayers paying for today's services?). These statements show capital and infrastructure assets, as well as long-term debt as part of the Township's overall financial picture.
- Focus on Major Funds: The fund based financial statements now focus on the Township's most significant funds (major funds). For 2005, the Township's major

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governmental funds are the General Fund, Fire Fund, Advanced Life Support Fund, Romeo Service Contract Fund and the 2002 Special Assessment Fund; the Township's major enterprise fund is the Sewer Fund.

- Budget Comparison: A financial statement reader will now be able to view not only the actual revenues and expenditures for the Township's major governmental funds as compared to the current budget, but also as compared to the original budget.

Adopting this new pronouncement has been quite an effort, especially for the Township's accounting department. We commend the staff on all of their hard work!

Revenue Sharing Estimates

As you are aware, the slowdown in the State's economy continues to directly impact revenue sharing payments. State shared revenue accounts for approximately 22 percent of the Township Governmental Funds' revenues. Though the State's sales tax collections (the sole source of revenue sharing payments to local units of government) have been near what was expected, the State continues to experience budget problems as a result of disappointing collections of State income tax and single business tax. For the time being, local government has been spared additional revenue sharing cuts for fiscal years 2006 and 2007, as the governor's proposed September 30, 2006 budget holds the state revenue sharing payments at approximately the 2004/2005 levels.

We recommend that the Township continue to evaluate the impact of the revenue sharing reductions as you amend your 2006 budget and plan for your 2007 budget. Updated information can be obtained from the Department of Treasury's web site at <http://www.treas.state.mi.us/apps/findrevshareinfo.asp> or by calling the Office of Revenue and Tax Analysis at 517.373.2697. We will continue to update the Township as developments occur.

Pre-funding of Retiree Health Care

As you are aware, the Township provides post employment benefits for all eligible employees. The Governmental Accounting Standards Board has recently released Statement Number 45, Accounting and Reporting by Employers for Post employment Benefits Other Than Pensions. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post employment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government wide financial statements, rather than the individual fund level. As a result, you will not need to change your budgeting practices.

As you know, the promise to provide health care to retirees is very similar to the promise to provide an annual pension check. Similar to the current accounting for the pension systems, the new pronouncement will require the Township to obtain an actuarial valuation of the obligation to provide retiree health care benefits. In addition, the Township's funding status or the progress it has made in accumulating assets to pay for this liability, will be disclosed in the

financial statements. Lastly, the Township will be required to make an annual contribution equal to the amount that the actuary deems necessary to fund the liability. As you know, the Township has already started to set aside funds for this liability by designating portions of fund balance in the General Fund and Advanced Life Support Fund. The changes required under GASB 45 will be effective in fiscal year ending 2010.

Internal Control and Fraud Prevention

Designing and maintaining a sound system of internal controls over Township assets, as well as fraud prevention and detection, are on the forefront in today's business environment. As part of our audit of the Township's 2005 financial statements, we performed additional procedures as required by Statement on Auditing Standards No. 99, Consideration of Fraud in a Financial Statement Audit (SAS 99). While SAS 99 does not change the focus of the financial statement audit to a "fraud audit," the new standard incorporates a change in mindset for auditors to search for and identify significant fraud risk factors. SAS 99 requires auditors to perform specific procedures to search for significant fraud risk factors, including inquiries with key members of the administration and other employees throughout the organization; a retrospective review of accounting estimates; a detailed review of all journal entries; and other related procedures. We are pleased to report that no instances of fraud were identified as a result of our procedures.

Accounting and Internal Control Matters

We commend the Board and administration on the action taken in response to suggestions and comments noted in prior year management letters. As part of the Township's process of continuous improvement, we noted the following internal control matters that we would like to bring to your attention for consideration:

- Over the past few years, the number of electronic wire transfers made by the Township to effect various transactions, including payroll related payments and investment transactions, has continued to increase. Some of the advantages of wire transfers include the time saved with the instant transfer of funds and a reduction in the cost and administrative time required for paper checks written. A disadvantage of wire transfers is that they are often not subject to all of the same internal control procedures as a routine accounts payable check. We recommend that the Township review its internal control policies with respect to wire transfers and ensure that all wire transfers, including payroll, are subjected to review and approval restrictions that are at least as restrictive as those for other disbursements. Procedures related to electronic funds transfers and ACH transactions should be outlined in a policy that is adopted by the Board, as required by Public Act 738. It is our understanding that the Township Board has not adopted such a policy prior to year-end; however, it is our understanding that a policy has been adopted subsequent to year-end.
- Credit cards are used by the Township as a matter of convenience to make small purchases that otherwise would be made from a petty cash fund. The use of credit

cards can have a positive effect on internal control because it limits the number of transactions that would otherwise be handled in cash. However, because of the relative ease for which credit cards could be used for unauthorized purposes, State law (P.A. 266 of 1995) requires that a policy be adopted by the Township Board that governs the use of credit cards by Township employees. The policy is required to include provisions covering the employees responsible for monitoring credit card use and compliance with the Township's policies; minimum documentation guidelines purchases made with credit cards; and for the establishment of internal controls to monitor the use of credit cards.

It is our understanding that the Township Board has not adopted a policy governing the use of credit cards prior to year-end; however, it is our understanding that a policy has been adopted subsequent to year-end.

- The general ledger software used by the Township could be accessed with an administrative user ID for which multiple staff had the password. This user ID could be used to post journal entries, in which case the originator of the entry could not be identified with certainty. While it is necessary to have such an ID for the software vendor to be able to access the system and to apply software updates, an important aspect of internal control is being able to identify the individual responsible for each entry posted to the Township's records. We recommend that this ID not be used for the posting of entries or any other manipulation of data and that this ID be eliminated if possible and without significant disruption in normal operations.
- Unclaimed Property Escheatment Considerations – In reviewing the Township's outstanding building bonds, we noted multiple outstanding bonds which date back several years. We recommend the Township continually evaluate its compliance with the State of Michigan's Uniform Unclaimed Property Act.
- Automating Accounting Records – Currently, many municipalities need to analyze several of their processes and determine if they need to be done, and if so, can they be done more efficiently. The elimination of certain manual processes and better leveraging the use of technology are vital in government service. In reviewing the Township's cash receipt system, we noted that the Township is using a manual cash receipt system on carbon copy paper. We recommend the Township automate their cash receipt system and integrate this system with their accounting software.
- Reconciling to General Ledger – A key control over financial reporting is reconciling general ledger accounts periodically, which includes reconciliation to source journal and records. In addition, timely reconciliation increases the accuracy of financial information available to the Township Board and management for decision-making purposes. The accounts receivable balances and special assessment balances were not reconciled to detail customer subsidiary ledgers to verify that the accounts receivable and special assessments balances were properly recorded. Upon investigation by Township personnel, balances were reconciled subsequent to audit fieldwork. We recommend that a system of regular account reconciliations, including supervisory review, be

established to ensure that reliable financial information is maintained and available on a timely basis.

- Sewer Expansion Project – It is our understanding based on discussions with Township personnel that a budget for the sewer expansion project that is being constructed by the Village of Romeo is not currently available. The Township should review the billings from the Village of Romeo to ensure that they are in accordance with budgeted amounts and that any change orders approved by the Village of Romeo are necessary and reasonable and will provide a benefit to the Township.

We would like to thank the Board for the opportunity to serve as auditors for the Township. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. If you would like to discuss any of these matters, or would like assistance in their implementation, please contact us.

Very truly yours,

PLANTE & MORAN, PLLC



Christina M. Kostiuk



Thomas Clement